

# The Barley Bulletin

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## Developing Relationships to Develop Markets – Doyle Lentz, Chair

The decline in U. S. barley production has impacted the way in which buyers buy malting barley, and also in how farmers sell barley. Malting barley has moved from a commodity crop to a specialty crop produced under contract. Historically, buyers purchased barley on the open market, and had a considerable quantity from which to choose. Today, buyers have moved from a “trader” mentality to a “procurement” mentality. Malting barley contract programs are the predominate method in which barley is purchased. The implementation and refinement of malting barley contracting programs is based in part on developing more “one on one” relationships between growers and buyers.

The Barley Council continues to develop and build relationships with domestic and international customers. Buyers are encouraged to carefully consider contracting programs to help meet their malt barley procurement needs. After all, people do business with people. It is important for barley producers to understand the procurement needs and procedures of the buyers, and it is equally important for buyers to understand the complexity of crop production and the importance of risk management at the farm level. Our respective businesses have many issues in common as we strive to optimize profits, manage risk, maintain cash flow, and turn inventory. Today, many buyers have minimal or no background in production agriculture. Education is critical in helping both parties understand the importance of a mutually beneficial business relationship. The Barley Council is committed to developing and maintaining these long term business relationships.

## Barley – From Commodity to Ingredient

The decline of barley production in the U. S. has placed barley in a unique marketing situation. Barley is no longer a commodity – it is a specialty crop marketed as an ingredient. Barley is the primary ingredient in brewing beer. It is a major ingredient in pet food. It is an ingredient in human food products, such as soups, crackers, and bakery goods. It is much more difficult to purchase barley on the open market due to the implementation of malting barley contracting programs with the malting and brewing industry. Corn has largely displaced barley in livestock feed, and consequently the loss of barley production has been in feed barley. This placed greater pressure on the malting and brewing industry to secure their supply of barley through contracting.

Promoting barley in the domestic and international marketplace requires an ingredient based approach. Educational programs at the North Dakota Barley Council focus on this ingredient based approach via a number of mechanisms, which include but are not limited to: 1) producing barley as an ingredient for targeted markets, such as malting and brewing; 2) implementing grower contracting programs for barley based upon ingredient specifications; 3) developing crop insurance programs that focus on barley as an ingredient vs. barley as a feed commodity; 4) assisting buyers in understanding the relative risks of producing barley as an ingredient in comparison with corn, soybeans and other crop choices. The Barley Council will continue to move in this direction of ingredient based education for barley market development and enhancement.



## **Barley Acres Rebound in 2015**

The USDA National Agriculture Statistics planting intentions report was generally positive for barley in 2015. North Dakota growers intend to plant 900,000 acres of barley in 2015, an increase of 45% from the 620,000 acres planted in 2014. The following table summarizes planting intentions for the member states of the National Barley Growers Association from 2012 through 2015.

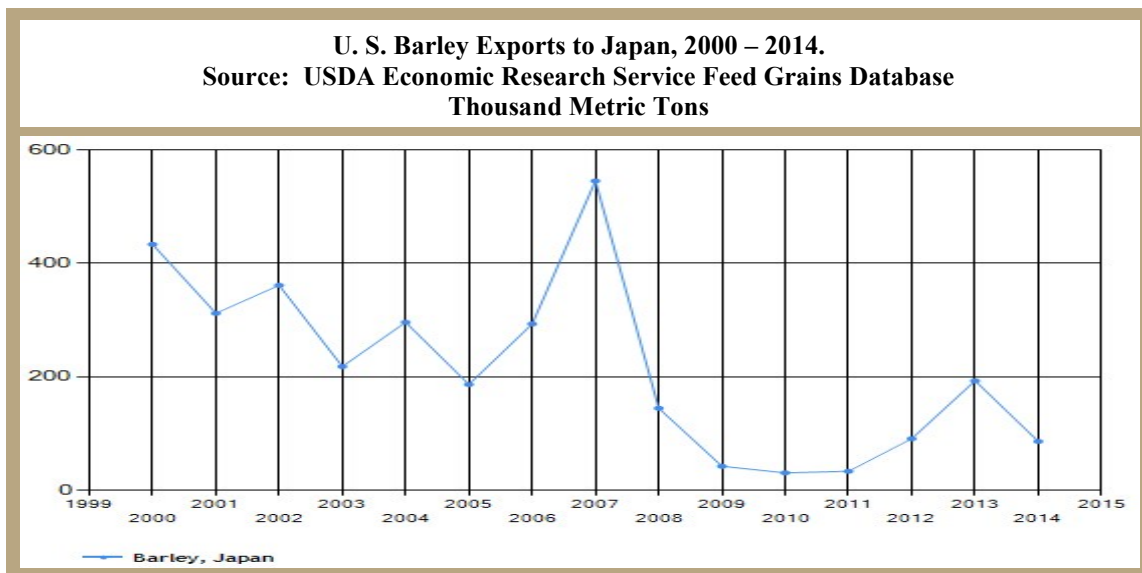
Nationally, barley acres are anticipated to increase 10% in 2015 (from 2.975 million acres planted in 2014 to 3.258 million acres planted in 2015). Hopefully timely rains and a cooperative growing season will result in a profitable crop year for growers.

Area Planted (Acres)					Percent Change From 2014 to 2015
STATE	2012	2013	2014	2015	
Idaho	610,000	630,000	560,000	580,000	4%
Maryland	60,000	75,000	70,000	50,000	-29%
Minnesota	115,000	90,000	75,000	90,000	20%
Montana	900,000	990,000	920,000	920,000	0%
North Dakota	1,060,000	760,000	620,000	900,000	45%
Oregon	56,000	63,000	40,000	50,000	25%
Washington	185,000	195,000	115,000	95,000	-17%
	2,986,000	2,803,000	2,400,000	2,685,000	
United States:	3,637,000	3,528,000	2,975,000	3,258,000	10%

## **Market Development**

Export market development requires continuous relationship development with buyers. Opportunities for export can be quite variable and are impacted by global market conditions. The Barley Council continues to focus efforts on long term relationships in the international marketplace, as outlined in the following sections.

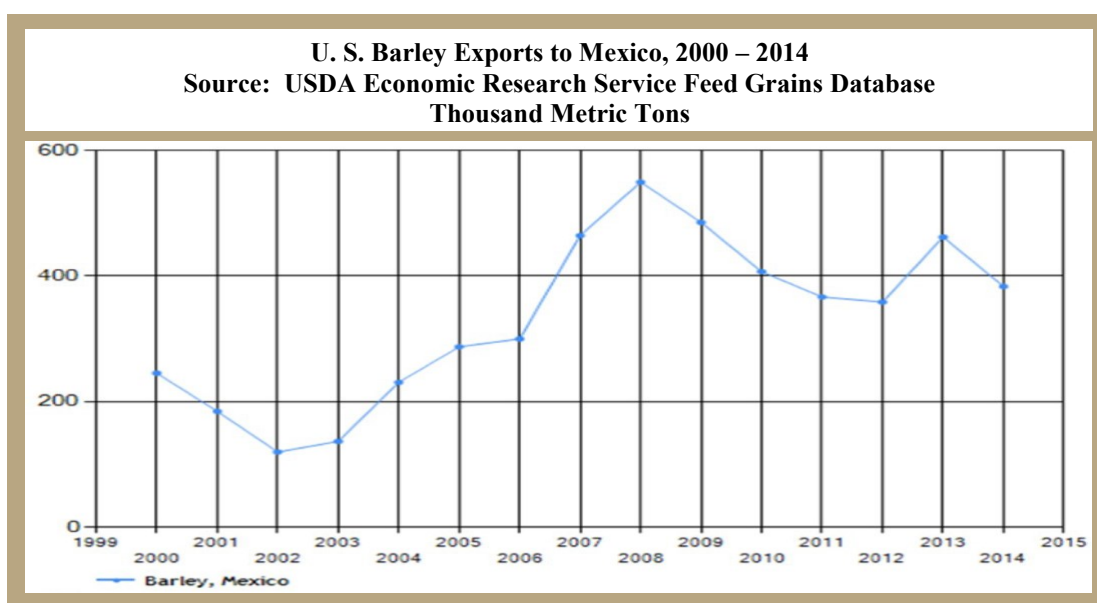
**Japan:** U. S. barley exports to Japan have been highly variable in recent years, as evidenced in the following graph.





Barley exports to Japan peaked in 2007 at 544 thousand metric tons before declining sharply to a low of 33 thousand metric tons in 2011. Exports increased through 2013 to a level of approximately 200 thousand metric tons, but declined to approximately 86 thousand metric tons in 2014. The majority of U. S. barley exports to Japan are from the Pacific Northwest, and are targeted to livestock feed. “The North Dakota Barley Council continues to monitor the Japan market and work with U. S. Grains Council and the Japanese buyers to maintain relationships and evaluate opportunities,” states Mark Seastrand, district II representative for the North Dakota Barley Council and barley sector director for the U. S. Grains Council board of directors. “U. S. Grains Council works to implement barley market missions to Japan to maintain relationships and evaluate potential opportunities. Japan is showing increased interest in sourcing food barley from U. S., and although this market is currently small, it provides a potential long term opportunity.” Japan is learning about malt barley contracting programs, which are the primary benchmark for barley production in North Dakota. Japan is beginning to understand that growers will not produce feed barley for the open market when other crop opportunities provide certainty and a higher probability of profit.

**Latin America:** Countries in Latin America continue to demonstrate potential for exports of U. S. barley. Mexico is a prime destination for U. S. barley, as evidenced in the following chart.



U. S. barley exports to Mexico have been hovering in the area of 400 thousand metric tons per year since 2010. Barley is utilized in malting and brewing as well as in pet food applications, both of which are growing markets in Mexico. “We are working to develop more in-depth knowledge of each market sector, its buyers, and the characteristics of the market,” states Greg Kessel, district V director and vice chairman of the North Dakota Barley Council. The Barley Council has been hosting trade teams from malting and brewing companies in Mexico on an annual basis since 2005.

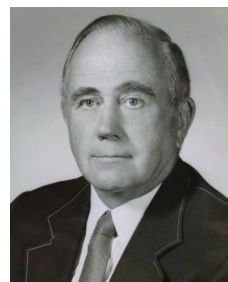
The Dominican Republic, Guatemala, Panama, and Colombia all hold potential for importing barley from the U. S. Competition from Europe, Canada, and Argentina is being carefully analyzed by buyers in these regions. Logistics will be a primary component in determining mechanisms for supplying these countries.

**Craft Brewers:** Craft beer production in the United States continues a steady growth pattern, from 5.35 million barrels in 2001 to 15.59 million barrels in 2013. The craft brewers collectively hope to be 20% of the U. S. market share by volume in the year 2020. The Barley Council monitors trends in craft brewing. Craft brewers are seeking direct supply relationships with growers as part of individual company marketing strategies. This is very challenging for barley growers, since most craft brewers utilize very small quantities of barley. “We recognize and respect their desire to have a closer relationship with growers,” states Barley Council chairman Doyle Lentz. “However, as growers we must remember that the majority of our malting barley supply is sold to the major malting and brewing companies. These major players are critically important to our business, and we will continue to work with them as well as the craft brewing industry.”



## **Errata**

**In Memoriam:** The barley industry recently lost two of its primary champions. Former North Dakota Barley Council board member and Chairman Louis Arnold passed away in December 2014. Bill Drummond, who was the first administrator of the North Dakota Barley Council also passed away in December 2014. “Louie and Bill were committed to improving all aspects of barley, from research to develop new varieties to developing domestic and international markets,” states North Dakota Barley Council chairman Doyle Lentz. “We are very grateful for their leadership and vision, which provided a solid foundation for the advancement of barley.”



William Drummond



Louis Arnold

**National Barley Growers Association:** The NBGA board of directors met in Washington DC in February 2015. NBGA president Doyle Lentz presided over the meetings, which include the NBGA member states of Maryland, Minnesota, Oregon, Washington, Idaho, Montana, and North Dakota. One of the primary activities of NBGA is the “Barley Boots and Brews” reception on Capitol Hill, which is sponsored by The Beer Institute and provides an opportunity for Congressional staff members, barley growers, and barley industry representatives to build relationships.



**Barley Crop Insurance:** the North Dakota Barley Council, in cooperation with Watts and Associates in Billings, Montana, received approval from the Federal Crop Insurance Corporation (FCIC) in to complete and deploy a new crop insurance product for malting barley. The product is a first in that it utilizes barley settlement data from barley buyers as a mechanism to address quality attributes and appropriately factor quality into the premium rating process. The product was originally scheduled for deployment for the 2015 crop year. However, USDA Risk Management Agency (RMA) requested expansion of the product to allow it to be used nationwide. The new product is scheduled to be available in the 2016 crop year.

**Market Intelligence:** Quantifying the size of given market segment for barley can be very challenging. Historically, the market for food barley has been estimated at 2% to 4% of the U. S. supply of barley. The challenge is in knowing which sectors of the marketplace (e. g. snack foods, soups, flour applications, etc.) are using barley in specific applications, the quantity utilized, trends in utilization, and the companies involved in manufacturing. The Barley Council has funded research at the NDSU Department of Agribusiness and Applied Economics to investigate the relatively new area of data mining. Mining retail sector databases provides the foundation for developing detailed analysis of market segments. Food barley was chosen for the initial approach due to the small size of the market. The objective is to develop a format for data mining that will allow for improved quantification and understanding of a given market segment, thus providing the foundation to analyze other market segments (e. g. pet food) in the domestic and international market place.

**U. S. Grains Council International Marketing Conference:** USGC held its 12<sup>th</sup> International Marketing Conference and 55<sup>th</sup> Annual Membership meeting in Costa Rica in February 2015. North Dakota Barley Council directors Greg Kessel and Gary Beck attended, along with Doyle Lentz (representing NBGA). During the meeting, the barley sector members review the current status and future directions for barley production in the U. S. and subsequent opportunities for export. Post conference barley meetings provided an opportunity for U. S. barley growers to understand the consolidation of the beer industry in the Latin American region, evaluate the relevance of craft brewing, and develop relationships for new market opportunities for U. S. barley. “The meetings with Bavaria Brewing in Colombia and the craft brewers in Costa Rica and Colombia indicate that these regions are interested in sourcing barley from the U. S., states North Dakota Barley Council director Gary Beck. “Free trade agreements have opened the door for export opportunities in this region. We look forward to working with these organizations to determine how we can meet their needs.”



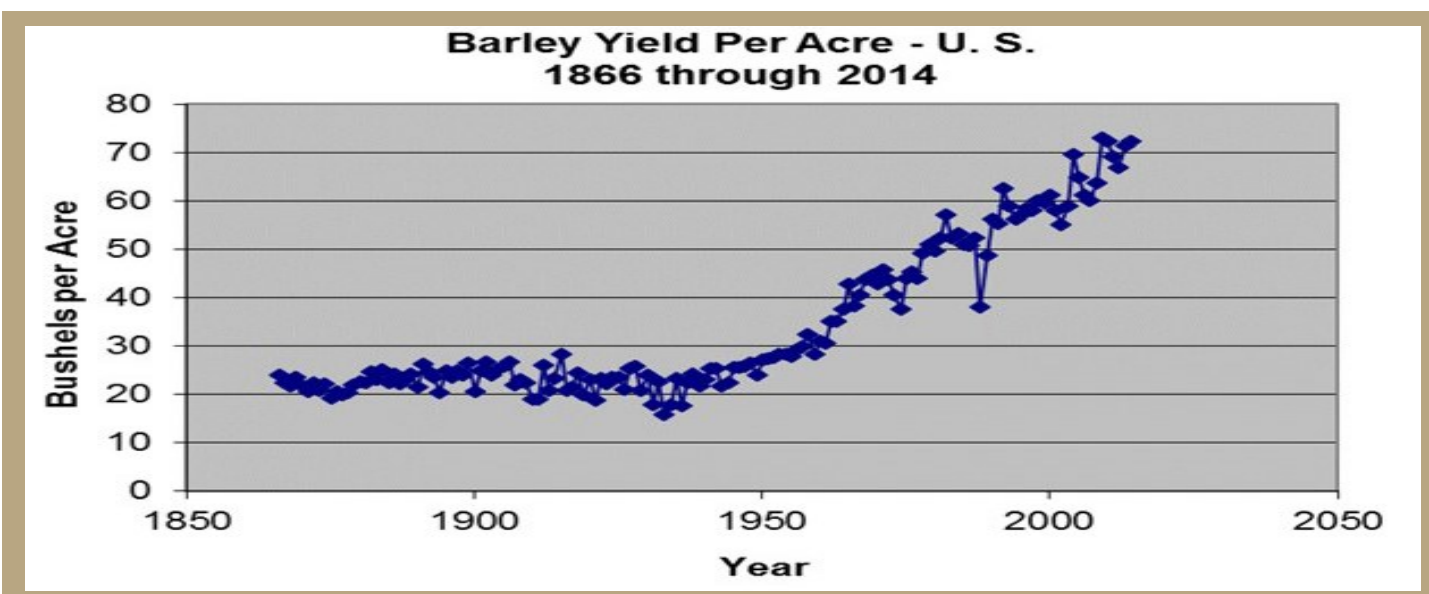
**National Barley Improvement Committee:** The National Barley Improvement Committee met in Washington DC in March 2015. NBIC is an alliance of researchers, barley producer groups, and malting and brewing industry members that work collectively to maintain and enhance funding for barley research. Barley variety development programs are primarily funded by federal and state money, and thus it is important to continue to secure federal funding to enhance barley research.



Left to right: Dr. Michael Davis, President, American Malting Barley Association, U. S. Senator Heidi Heitkamp, and North Dakota Barley Council representative Charles Ottem discuss barley research funding the annual National Barley Improvement Committee Meeting in Washington DC.

**World Barley, Malt, and Beer Conference:** The World Barley, Malt, and Beer Conference was held in March 2015 in Dublin, Ireland. North Dakota Barley Council Executive Administrator Steven Edwardson was an invited speaker for the event. Steve's presentation focused on the decision process that U. S. growers utilize in determining which crop enterprises to select in a given year, and how to quantify and compare the risks of various crops. Growers instinctively select a mixture of crop enterprises that are profitable and manageable from the standpoint of risk. The World Barley, Malt, and Beer Conference is held every 2 years. There were approximately 300 attendees from over 20 countries.

**Barley Yields:** The U. S. Department of Agriculture started maintaining yield records on barley in 1866 (right after the Civil War). Barley breeders have done an excellent job in improving barley yields, especially since the 1950's. Advancements in breeding technology have greatly improved barley yields, and will no doubt continue to do so in the future.



**Barley Bulletin via Email:** if you are interested in receiving the Barley Bulletin via email, please send your email address to [ndbarley@ndbarley.net](mailto:ndbarley@ndbarley.net).



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### **NORTH DAKOTA BARLEY COUNCIL DIRECTORS & STAFF**

- Doyle Lentz: District IV, Chairman, Rolla, ND.
- Greg Kessel: District V, Vice Chairman, Belfield, ND.
- Mark Seastrand: District II, Director, Sheyenne, ND.
- Gary Beck: District I, Director, Munich, ND.
- James McCullough: District III, Director, Regan, ND.
- Steven Edwardson, Executive Administrator.
- Lori Buckhouse, Administrative Assistant.

### **Calendar of Events**

June 8 – 10, 2015  
National Barley Growers Association, Chicago, IL.

July 20 – 23, 2015  
Fourth Annual Barley Field School, NDSU, Fargo, ND.

July 27 – 29, 2015  
U. S. Grains Council Summer Meeting, Montreal, Quebec.

December 9 – 10, 2015  
Prairie Grains Conference, Grand Forks, ND.

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